

STATE OF NEVADA
GAMING CONTROL BOARD

CPA 6A MICS COMPLIANCE REPORTING REQUIREMENTS

GUIDELINES

Applicability

These guidelines apply to the performance of the CPA 6A MICS Compliance Reporting Requirements for each licensee defined as a "6A licensee" pursuant to Regulation 6A.010(9). Generally, a 6A licensee has annual gross gaming revenues of \$10 million or more and table games statistical win of \$2 million or more during the same time frame. Additionally, the Chairman may designate 6A licensee status.

The knowledge necessary for determining compliance includes an understanding of Regulation 6A and the 6A MICS. Both of these publications are available from the Gaming Control Board. The Audit Division also publishes newsletters in which we provide answers to commonly asked questions regarding Regulation 6A and the 6A MICS. Newsletter #5 dated April 1, 1997 addresses questions associated with Version 3 of the Currency Transaction Reporting section of the Minimum Internal Control Standards (6A MICS) as well as Regulation 6A. The newsletters are available from the Board and should prove to be invaluable in assisting licensees and CPA's.

Required Procedures

In connection with the issuance of a CPA Compliance Report pursuant to Regulation 6A.060(2) the CPA is required to:

1. Compare the licensee's submitted system of internal control in its entirety to the provisions of Regulation 6A and to the 6A MICS to ascertain whether the criteria set forth in the regulation, standards or approved variations are adequately addressed. The submitted system must contain an accurate, detailed narrative description of the licensee's procedures in effect that demonstrates compliance with Regulation 6A and the 6A MICS.

Licensee's personnel may be used to cross-reference the internal control system to Regulation 6A and the 6A MICS, as long as the CPA performs a review of the licensee's work and assumes complete responsibility for the proper completion of this requirement.

2. The CPA must perform the following:
 - a. Semi-annual compliance walk-throughs of established procedures in effect for all departments using the applicable CPA 6A MICS Compliance Checklist by performing walk-throughs, observations and compliance testing.

Note: Photocopies of the checklists provided by the Board may be used. Additionally, if your checklists are generated from our disks or your computer files, the format must be identical to that issued by the Board.

No CPA walk-throughs are required to be performed in branch offices; however, these procedures are recommended when an office has more than \$1 million of cash

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transactions (both cash-in and cash-out transactions combined) in the preceding business year. Procedures for compliance walk-throughs must be performed on two different shifts (rotated among departments/contacts) and include interviews with employees who handle cash transactions, examination of available 6A documentation, and general observations. Sufficient procedures will be performed to address compliance with the following requirements:

- 1) Prohibited transactions as described in Regulation 6A.020 for all monitoring areas and structured transactions described in Regulation 6A.090.
 - 2) Identification and reporting procedures for transactions described by Regulation 6A.030(1) and aggregated transactions described by Regulation 6A.040 that may occur as the result of single, multiple and/or dissimilar transactions.
 - 3) Regulations 6A.020(7) and 6A.050(1) and (2) for all casino departments that accept front money, safekeeping, or telephone accounts.
 - 4) The recordkeeping requirements of Regulations 6A.050 and 6A.080.
- b. Perform unannounced observations (requiring a minimum total of four hours per quarter) of the casino cage, pit, slots, and sports book writer/cage areas. The observations will be concentrated during those hours of the day/month/quarter for which reportable or prohibited transactions are most likely to occur and be observed and will be directed towards those reportable or prohibited transactions that would not be detected in a review of casino records generated independent of Regulation 6A.

For purposes of these procedures, "unannounced" means that no officers, directors, or employees are given advance information regarding the dates or times of such observations. However, the CPA may identify himself upon entering the licensee's premises.

- c. For a minimum of four days per year, examine all casino records independent of Regulation 6A (e.g., licensee's safekeeping/front money records, cage/vault documentation, credit play records, race/sports tickets for write and payouts, cash receipts/disbursements, bingo records, keno tickets, slot jackpot payout slips, etc.) as well as Regulation 6A-related documents (e.g., MTL's, CTRC-N's, etc.). The examination is to be performed on documentation separate from any examined in conjunction with the walk-through process to determine whether:
- 1) CTRC-N's were completed and filed for all reportable transactions (i.e., multiple, similar and dissimilar);
 - 2) Information contained within the CTRC-N's was complete; and

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- 3) Prohibited transactions (Regulation 6A.020) have/have not occurred.

To reiterate, the minimum sample of each type of document to be examined will include all those generated for four days per year. Each day will be in a different, non-consecutive month.

- d. Review the established training programs, suspicious activity oversight, and the compliance specialist program to ensure continuing compliance with the requirements of Regulation 6A.
- e. Review the workpapers prepared by the internal auditors and their reports to management for quarterly Regulation 6A reviews of all departments, notification to management, and corrective action on any exceptions noted.

The above procedures are the minimum procedures that must be performed. Upon written notice by the Board Chairman or his designee, other procedures may be required. The licensee shall engage the CPA to perform such procedures and include the findings in the CPA's compliance report. The Board will cite licensees for violations of Regulation 6A.060(2) where the CPA's have not complied with the Guidelines, so that the problems may be rectified during future engagements.

Upon written request by a licensee, the Chairman or his designee may provide written approval for the CPA to waive the performance of one or more areas of review for a specific year due to the occurrence of unusual circumstances or for good reason. Such approval is at the sole discretion of the Board. For new licensees that have been in operation for three months or less by the end of their business year, performance of these procedures is not required.

These Guidelines are not intended to limit the CPA to the performance of only the above-specified procedures. If additional procedures are performed (e.g., expanded document testing) the results should be included in their report.

Reliance on Internal Auditors

The CPA may rely on the work of an internal auditor, to the extent allowed by the professional standards, for the performance of the required procedures specified in items related to items 2(a) through (d) above, and for the completion of the checklists as it relates to those procedures, if the internal audit department meets all of the following criteria:

- 1. The internal audit department reports directly to management/ownership (i.e., individuals who are independent of departments subject to audit).
- 2. The individual who is directly responsible for supervising and managing the internal audit function must be a CIA or CPA with a minimum of two years auditing experience.

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3. At least 50% of the internal audit staff must possess a four-year degree.
4. The internal audit department operates with audit programs which, at a minimum, address Regulation 6A and the 6A MICS. Additionally, the department properly documents the work performed, the conclusions reached, and the resolution of all exceptions.

The CPA will evaluate the internal audit department's compliance with the above criteria and document the results in their workpapers. Additionally, the CPA shall issue a letter to the Board, (either through the licensee or directly with the concurrence of the licensee), as to the internal audit department's compliance with the preceding criteria and the extent of reliance to be placed on the work of the internal audit department ("internal audit reliance letter"). The letter must be submitted no later than 90 days following the beginning of each year under audit. The Chairman or his designee, in his sole discretion and upon notice to a licensee, may refuse to accept or may limit the extent of the CPA's reliance on the work of an internal audit department for purposes of Regulation 6A.060(2); written notification will be provided to the CPA within 30 days if such action is to be taken. If the CPA does not anticipate relying on the internal audit department, no Board notification is necessary. In those instances where the licensee has changed CPA's and the successor wants to rely on the internal audit department, the 90-day notice requirement can be waived. Such approval is at the sole discretion of the Board. The request to rely on internal audit may be combined with the internal audit reliance letter submitted for the purposes of Regulation 6.090(9).

In certain limited circumstances the internal audit department may not satisfy one or more of the specified criteria, but the CPA may believe the quality of the department is such that reliance should be placed on the work of the internal auditors. In such circumstances the CPA shall submit a written request to the Chairman (through the licensee or directly with the concurrence of the licensee) for approval of an internal audit department that does not meet the above criteria ("internal audit exemption letter"). The letter must describe in detail why the internal audit department should be relied upon. The letter must be submitted no later than 90 days following the beginning of the year under audit. The Chairman or his designee will evaluate the request and issue a written determination. For purposes of Regulation 6A.060(2), the CPA should not place any reliance on an internal audit department that doesn't meet the established criteria until such time as a written determination has been received. Once an exemption has been granted, it is necessary to notify the Board if the conditions of the exemption have changed or if the internal audit department will no longer be relied upon. An internal audit exemption letter does not have to be submitted annually if the department remains unchanged from when the exemption approval was granted. However, an internal audit reliance letter will need to be filed annually confirming that no changes in the internal audit department had occurred since the granting of the exemption. The request for an exemption may be combined with the internal audit exemption letter submitted for the purposes of Regulation 6.090(9).

If the CPA is engaged to perform both the internal audit procedures required by the Minimum Internal Control Standards and the procedures required by Regulation 6A.060(2), the compliance walk-through procedures performed need only meet the internal audit requirements of the 6A

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MICS (quarterly). The semi-annual compliance walk-throughs described at 2(a) above do not have to be repeated. The performance of the procedures related to items 2(a) through (d) above are satisfied by the internal audit 6A MICS and do not have to be repeated. The same policy is applicable if the CPA relies on a qualified internal audit department. **ALL** internal audit procedures must be performed (either by someone independent of the functions being examined, a separate internal audit department, or a CPA).

If internal audit personnel perform any required functions (e.g., training, compliance specialist, etc.) the CPA may not rely upon the internal audit department to evaluate those areas. Finally, in some instances another CPA may perform the licensee's internal audit function. No reliance letter is required if the CPA is licensed to practice in the state of Nevada.

Report Format

The Gaming Control Board has concluded that the performance of these agreed-upon procedures is an attestation engagement in which the CPA applies such agreed-upon procedures to a licensee's assertion that the gaming operation and the operation's written internal control system are in compliance with Regulation 6A and the 6A MICS. Accordingly, the Statements on Standards for Attestation Engagements (SSAE's) issued by the Auditing Standards Board are applicable. SSAE #3 ("Compliance Attestation") and #4 ("Agreed-Upon Procedures Engagements") appear to provide current, pertinent guidance regarding this specific type of engagement, and the sample report formats included within those standards may be used, as appropriate, in the preparation of the CPA's MICS compliance report. The Board will accept other report formats if they contain all of the information discussed below.

The Regulation 6A.060(2) compliance report should identify the procedures performed and whether or not any exceptions were noted. The report must describe all instances of procedural noncompliance with Regulation 6A, the 6A MICS or approved variations, and the licensee's written system of internal control, and all instances where the written system does not comply with the 6A MICS. Pursuant to Regulation 6A.060(2) each instance of noncompliance discovered by the internal audit department must also be addressed by the CPA's compliance report. This can be accomplished by itemizing each exception in the body of the report or by a general reference to the internal audit reports which must be attached to the CPA's report. If copies of the internal audit reports are attached, they should contain the individual instances of noncompliance noted by the internal audit department. Management responses are required for all noted instances of noncompliance found by both the CPA and the internal audit department. The Regulation 6A.060(2) compliance report may be combined with the Regulation 6.090(9) CPA compliance report.

Material internal control deficiencies in areas that are not addressed by Regulation 6A or the 6A MICS should be disclosed in a management letter to the licensee and not in the Regulation 6A.060(2) report.

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Report Submission Requirements

Two copies of the CPA's 6A MICS compliance report and the licensee's statement addressing areas of noted noncompliance are required to be submitted to the Board no later than 150 days after the licensee's business year pursuant to Regulation 6A.060(2). This report should be provided in addition to any reports required to be submitted to the Board pursuant to Regulation 6.080(8).

It is recommended that the CPA maintain the workpapers supporting the report for a minimum of five years. The Board may request access to these workpapers, through the licensee, pursuant to Regulation 6.080(9).

Please contact the Board's Audit Division if you require clarification of the preceding guidelines.